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December 9, 1952

MEMORANDUM FOR THE RECORD

SUBJECT: Psychological Strategy in East-West Trade

1. The idea discussed here is that the United States and its Western European partners should make an organized continuing offer to expand trade in consumer goods to the captive countries of Soviet Europe.

2. This idea is developed for two reasons. First and most important because the Soviet Union has a very great vulnerability resulting from its economic exploitation of the orbit countries. (This is demonstrated in an excellent analysis on this subject prepared by OIR in the Department of State). In other words, the idea is essentially one of attacking a major Soviet weakness. The second reason is that Soviet propaganda has succeeded to a certain extent in giving the people of Western Europe the impression that there is a great opportunity for expansion of peaceful trade which the United States is forcing them to forego. This propaganda, coupled with the failure of the United States to categorically and publicly affirm its belief in the desirability of trade in non-strategic goods, has weakened our East-West trade program in Western Europe. Because there is an important area of doubt about our position and about the truth of the Soviet propaganda, the amount of cooperation in carrying out the strategic trade controls in Western Europe is diminished. If we announced our support of expanded trade in non-strategic goods, we would immediately allay the fears of various groups in Western Europe and, at the same time, cut the ground from under the Soviet propaganda.

3. Essentially, this idea does not involve anything new. It is consistent with present U. S. policy and is consistent with what is currently going on in East-West trade. The only thing new about this scheme is that the offer to expand trade in consumer goods would be organized on a concerted basis and continuously publicized. At the present time any country in the Soviet Orbit may buy as many consumer goods as are available on the Western market because there are today no, repeat no, security controls over these goods. The reason the orbit countries are not buying these goods is because they have been instructed ever since the creation of the Molotov plan (CCPA) to buy only limited quantities of consumer goods and only these as necessary tie-ins in order to obtain strategic goods. The plans of all of the orbit countries have been patterned after the 5-year plans of the Soviet Union and emphasize industrialization while de-emphasizing the traditional pattern of exporting raw materials in return for consumer goods which existed before the war.

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Unless orbit countries were to completely overthrow the trading pattern laid down by the Kremlin and the Marxist economic evolution called for in their plans, they, of course, would have to turn down any offer to expand trade in consumer goods. Nevertheless, it is known that the people of the Soviet Orbit, because of the tremendous exploitation of the USSR and because of the unbalanced and unrealistic nature of the economic plans carried out by the Communist regimes, are desperate for consumer goods. These people have been waiting in long lines year after year in order to obtain an occasional piece of meat or a pair of shoes. Such things as canned goods, refrigerators, and other household appliances which are common in Western Europe are almost unheard of in most of the towns of the Soviet Orbit.

4. The PEB panel concerned with this subject has made a thorough analysis of the possibilities for expanding trade in consumer goods from Western Europe to East Europe. The Department of Commerce estimates that approximately half a billion dollars worth of consumer goods now produced in Western Europe and relatively difficult to market in the dollar area could be offered to captive Europe. This list includes, in addition to perishables and other standard consumer goods, light textile and farm equipment. It would be offered in exchange for coal, timber, grains and other traditional raw materials available in Eastern Europe which the West is now using precious dollars for in the Western Hemisphere. Thus, though the chances are ten to one against the orbit countries being able to accept any such trade offer, even if they should, it would strengthen Western Europe and enhance the psychological position of the U. S. regarding East-West trade.

5. Last winter, prior to the Moscow Economic Conference, this idea was put forward by the Staff of PEB and turned down primarily by the Department of State. The main reasons for the turn down were: (1) That such a program would weaken our negotiating position for the control of strategic trade. State said that if they were to urge the countries of Western Europe to join a program of this sort while at the same time pressing the Western European countries to cut strategic trade, the pressure for the strategic trade controls would be considerably vitiated. (2) State felt that the Russians might use this offer as a means for initiating new trade negotiations for the expansion of really strategic trade, and that if the Western European countries were tempted we would have a very difficult time turning down such trade developments in the face of our initiating the scheme at the outset. (3) State was also worried that this scheme might inspire false hopes in Western Europe for alleviation of some of their economic problems. (4) There was also considerable worry about U. S. support of any such project, even though the inspiration appeared to come from a European country, because of U. S. public opinion and particularly because of the anticipated negative Congressional reaction which might lead to legislation along the lines of the Lom Amendment.

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6. I do not agree with the State Department qualms. In the first place, I think this program can be made most persuasive and can be developed in such a way that Congressional leaders will support it. I think the fact that it is essentially an attack against a major Soviet vulnerability will definitely be overriding in their consideration. Congress and the new Administration are anxious to develop programs to hurt the USSR behind the Iron Curtain. I do not think the scheme should inspire false hopes in Western Europe. If it is properly handled, the public relations aspects of Western European Governments would clearly state that because of the Soviet control and exploitation of Satellites, it is anticipated that the offer will definitely not be accepted. I don't think the negotiating problem should be insurmountable either. Apparently, the agreement by Western European Governments to control really strategic goods is quite satisfactory. In fact, this program could very well enhance the strategic control by actually demonstrating the reasonableness of our position and proving that the Soviets don't have a gold mine of peaceful trade immediately available. I should think that this project, if it were adopted, should not be negotiated with the regular East-West trade men of the Western European Governments, but rather with high ranking officials in the foreign offices who are primarily concerned with political warfare against the Soviet Union.

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7. Personally, I feel that this project can serve as a major weapon in the East-West conflict. The recently completed [redacted] study on Soviet vulnerabilities concludes that the greatest vulnerability of the Soviet Union is its monolithic bureaucracy and the stresses working towards disintegration of that bureaucracy. There have been three schools of thought regarding Eastern Europe: (1) That we should do nothing either because it is too dangerous or because results are impossible; (2) that we should work toward liberation of Eastern Europe; and (3) that Eastern Europe is a millstone around the neck of the Soviet Union which should be made increasingly heavy. The [redacted] study confirms my personal view that the third alternative is the most desirable for the U. S. to follow. This project is calculated to promote overload of the Soviet bureaucratic position in captive Europe.

8. Finally, I should like to quote from some cables from various embassies concerning on a rather negative projection of this scheme sent out by the Department of State:

- (1) London Despatch 3960, March 5, 1952 - commenting on Soviet trade policy the Embassy states, "This general Soviet coordination is best illustrated by the marked decline in Soviet bloc demand for consumer goods from the West and the corollary concentration of demand for capital equipment in strategic materials."

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- (2) Paris telegram 3689, March 19 - "...advocate using various existing international forums to reiterate past and present readiness of West to engage in peaceful trade with East re-stricting only goods useful to Soviet war machine."
- (3) Moscow telegram 1496, March 20 - "We have no, repeat no, objection general statement alluding to hundreds of millions of dollars worth consumer goods in U.S. and Europe which now and since the war have been available for Eastern Europe. Embassy urges further discussion positive proposals with careful examination and relationship Point IV, MSP, UR as well as reaction U.S. public, free world and Soviet Bloc."
- (4) London telegram 4179, March 21 - "Embassy suggests that proposal such as this by PSB if properly timed and presented might well be useful in answering, at least in West, Comrie propaganda line on East-West trade. PSB's proposal might well be introduced at future ECE meeting or in course of other regular efforts. Embassy would welcome opportunity to discuss suggestion with British if we could be informed in more detail."
- (5) Prague telegram 688, March 24 - "Re reason for lack consumer goods here; is not low-level East-West trade but Kremlin policy of building up Cashe heavy industry at expense of production of consumer goods along with Soviet Union's economic plundering of this country."

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